Brazil Macro | December 2021

Economic Activity

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SUMMARY

- **We are lowering our GDP growth forecasts for the horizon of 2021 to 2023.** For this year, our estimate is 4.6% (previous 4.9%), as 3Q21 activity was not as strong as previously thought, mainly owing to the goods-related sectors and disappointing farm output. Regarding the current quarter, the negative carryover implied by September's results, high inflation, the weakening in economic confidence, and increasing uncertainty bring challenges for overall activity in 4Q21. However, we still expect sequential GDP growth, stemming mainly from good contributions from mobility-related services segments (e.g., Services to Families), which still show wide idleness relative to the pre-pandemic period, and from a rebound in farm output.

- **A tighter monetary policy prompted us to reduce our GDP estimate to 0.7% (from 1.0%) in 2022 and to -0.2% (from 0%) in 2023.** For 2022, we expect good growth contributions to come from the mechanical recovery of the services sector, mainly from those sectors that still show idleness regarding the pre-pandemic mark. In addition, we expect some hand lent by the labor market recovery (with an expected real wage bill expansion as a byproduct) and by the strength in less cyclical commodity-related sectors. These factors are expected to be somehow shadowed by the delayed effects of a tighter monetary policy and worse financial conditions. For 2023, we expect the lagged effects of monetary policy and financial conditions to prevail, leading to a retreat in overall activity.

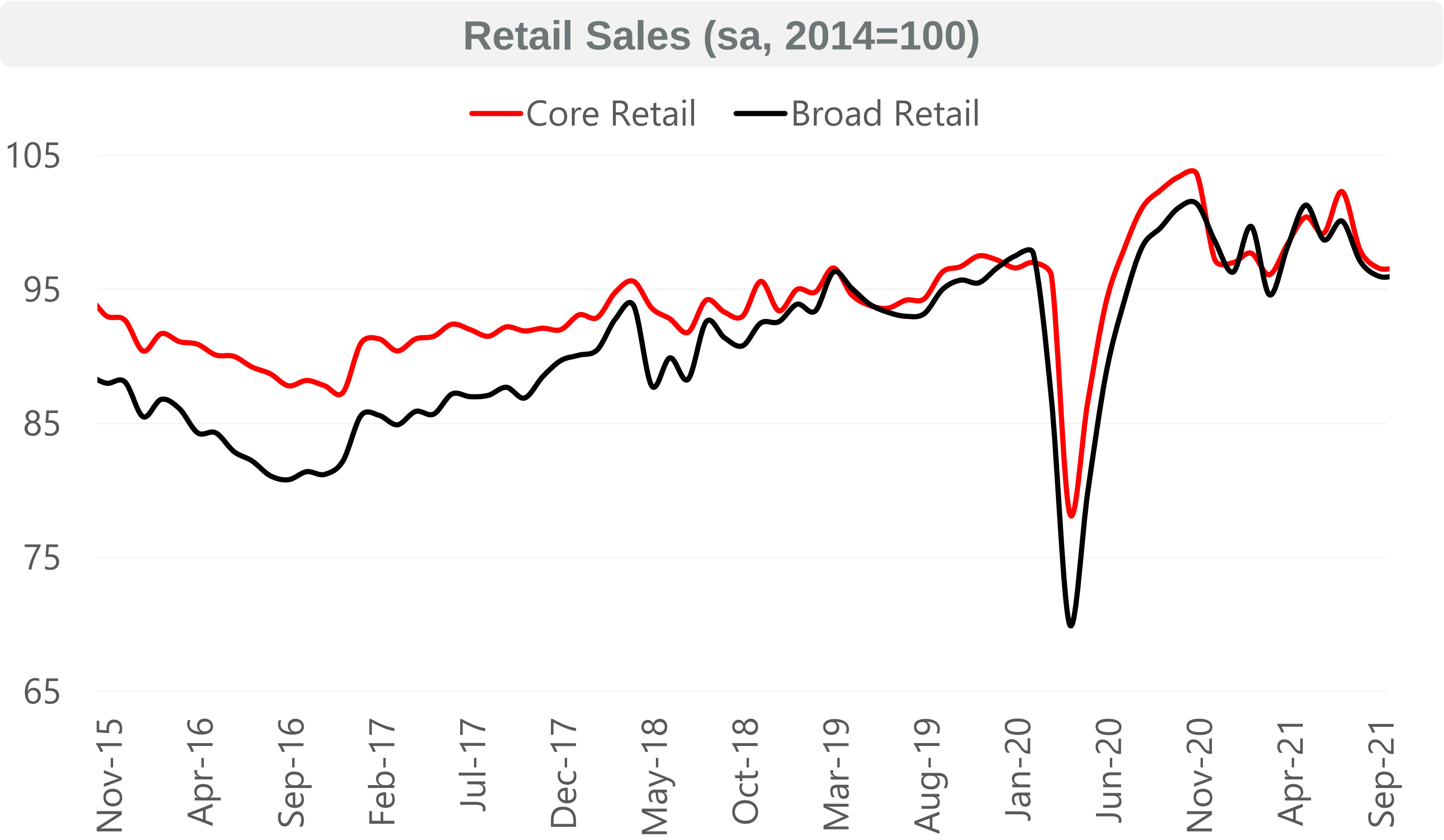
- **As the positive effect of the reopening process fades, we see limited room for further employment growth.** Thus, we now see a stable unemployment rate throughout 2022 and 2023, at levels above the structural joblessness. Already accounting for the series revision in the September PNAD, we estimate average unemployment of 13.8% in 2021 (unchanged from last review), 14.0% in 2022 (previously 13.7%) and 14.0% in 2023 (previously 12.9%).

RETAIL SALES

01

Headwinds Dragged Down Retail Activity in 3Q

- High inflation eating on household income, weakening in consumer confidence and maintenance in supply hurdles seen worldwide brought challenges to retail sales in 3Q21. Moreover, the shift of spending into services as the economy reopens was an additional factor to explain the weak figures seen in goods-related sector.

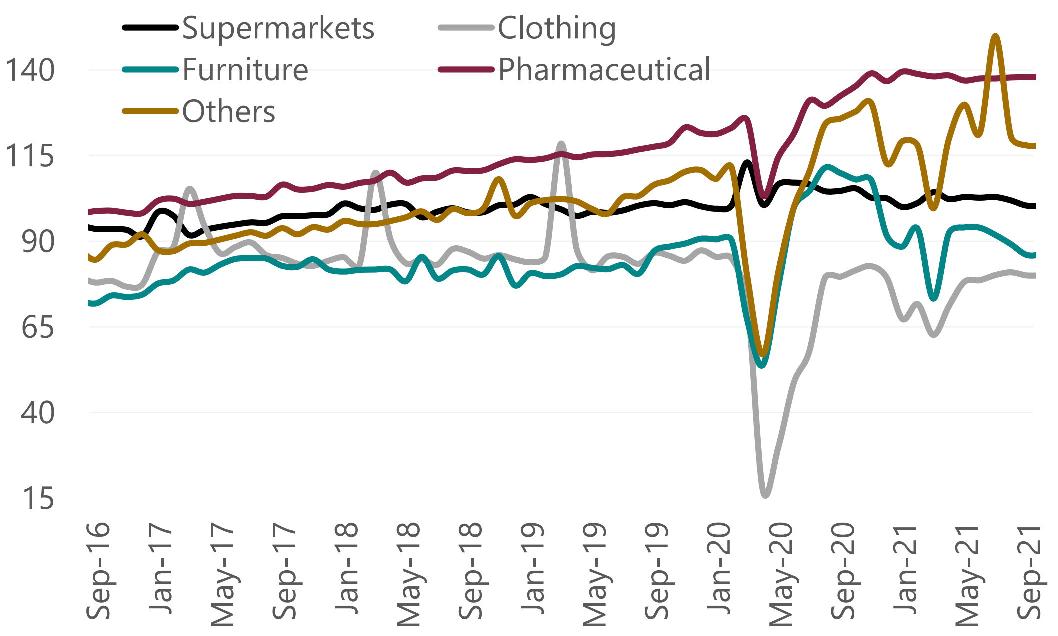


Sources: IBGE, Santander

Credit and Income Sensitive Segments

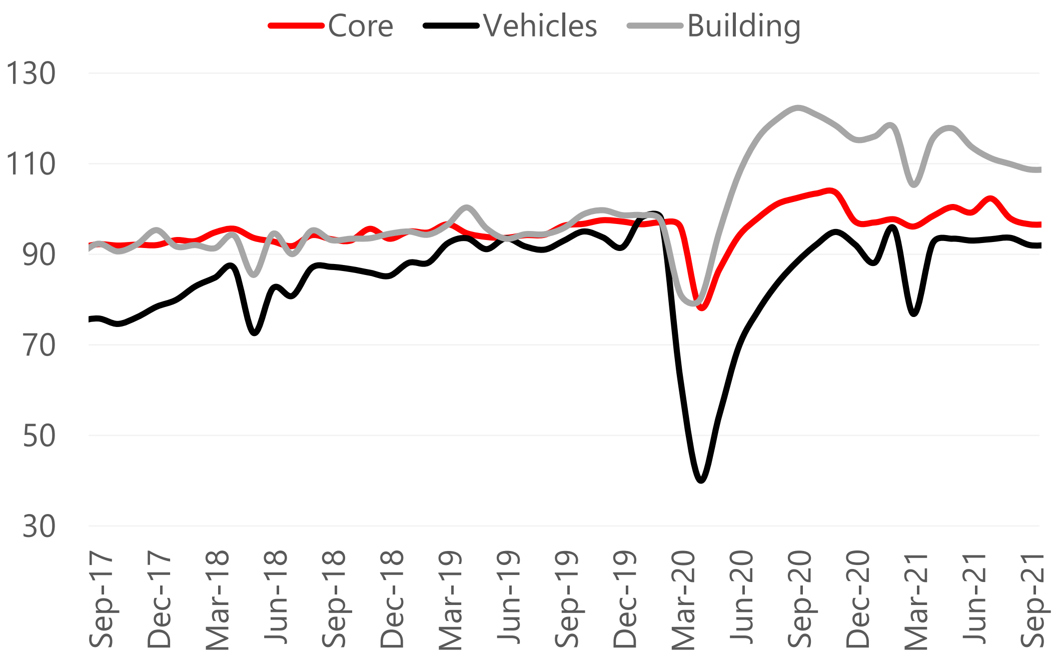
- The weak figures seen in 3Q21 stems both from tepid figures in credit and income led segments. Indeed, the deceleration in household credit granting reinforced the impact of inflation eating on household income, and we expect the maintenance of this picture in the remaining quarter of 2021.

Core Retail Sales (sa, 2014=100)



Sources: IBGE, Santander

Broad Retail Sales (sa, 2014=100)

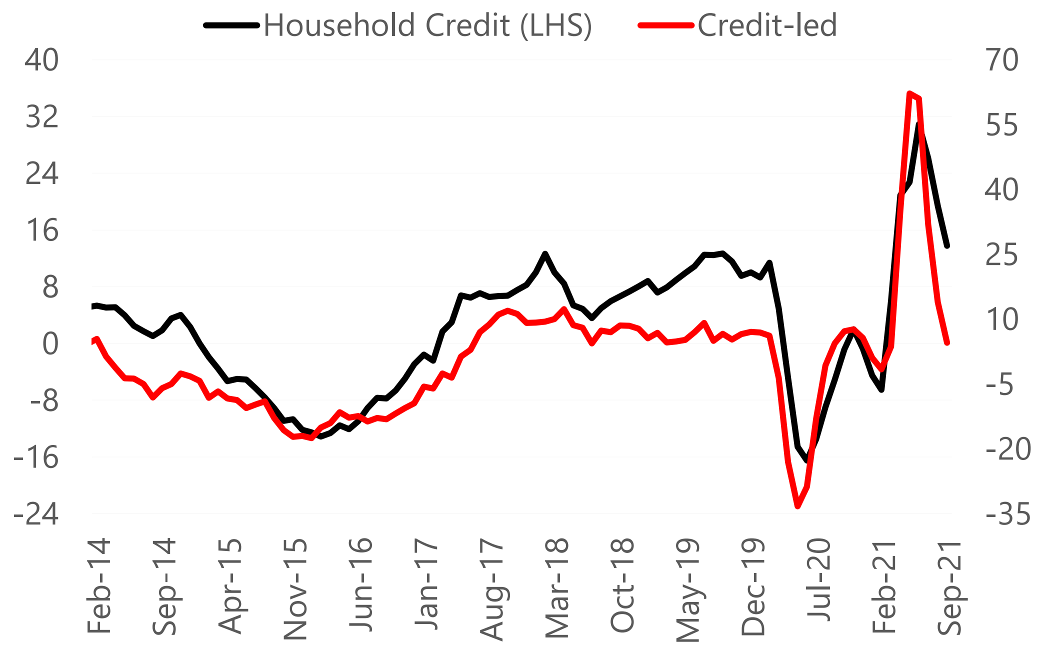


Sources: IBGE, Santander

The Expected Recovery of Real Wage Bill Should Support Income-Led Retail Sales

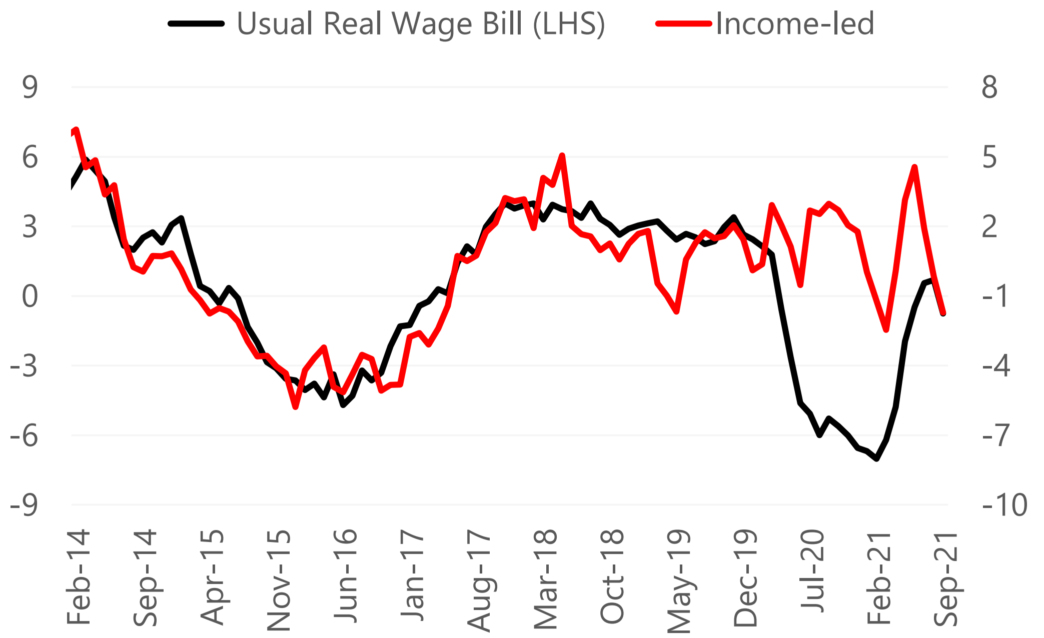
- For 2022, the resilience of household consumption should come from the labor market recovery (with an expected real wage bill expansion as a byproduct), mainly from the informal segment. Amid the environment with rising interest rates, we don't expect credit granting to be a relevant driver of consumption (and activity) in the forthcoming year.

Retail Sales and Credit (3mma, % YoY)



Sources: IBGE, Santander

Retail Sales and Income (3mma, % YoY)



Sources: IBGE, Santander

Retail sales breakdown

Retail Sales Breakdown										
		Jul-21			Aug-21			Sep-21		
Weights		% MoM	% YoY	% QoQ	% MoM	% YoY	% QoQ	% MoM	% YoY	% QoQ
66.9%	**Core Retail Sales**	**3.1**	**5.8**	**3.3**	**-4.3**	**-4.1**	**1.5**	**-1.3**	**-5.4**	**-0.4**
8.3%	Fuels	-0.3	6.6	5.5	-2.8	0.4	3.0	-2.6	-3.9	-1.5
30.6%	Hypermarkets, supermarkets	0.2	-1.7	0.2	-1.0	-4.6	-0.6	-1.5	-3.7	-0.9
6.2%	Fabrics, clothing and footwear	1.9	42.0	15.4	1.0	1.2	13.2	-1.1	0.0	5.8
7.4%	Furniture and home appliances	-2.2	-12.0	8.0	-2.9	-19.8	5.9	-3.5	-22.6	-4.7
5.1%	Pharmaceutical	0.0	4.9	-0.8	0.2	6.6	-0.1	0.1	4.2	0.1
0.9%	Books, papers and magazine	-6.2	-23.3	8.3	-1.0	1.6	4.7	0.0	-3.5	-3.1
0.6%	Office equipment and supplies	-1.0	-5.1	2.1	-4.6	-9.1	-1.6	-3.6	-14.7	-7.0
7.8%	Other	23.3	36.9	19.0	-19.5	-1.5	12.3	-2.2	-6.9	4.6
100%	**Broad Retail Sales**	**1.4**	**7.1**	**2.6**	**-3.0**	**-0.1**	**0.6**	**-1.1**	**-4.1**	**-1.7**
8.9%	Building Materials	-2.2	-4.7	1.2	-1.2	-6.9	-1.1	-1.1	-10.3	-5.0
24.2%	Vehicles	0.3	17.9	5.6	0.3	16.2	6.6	-1.7	3.0	0.0

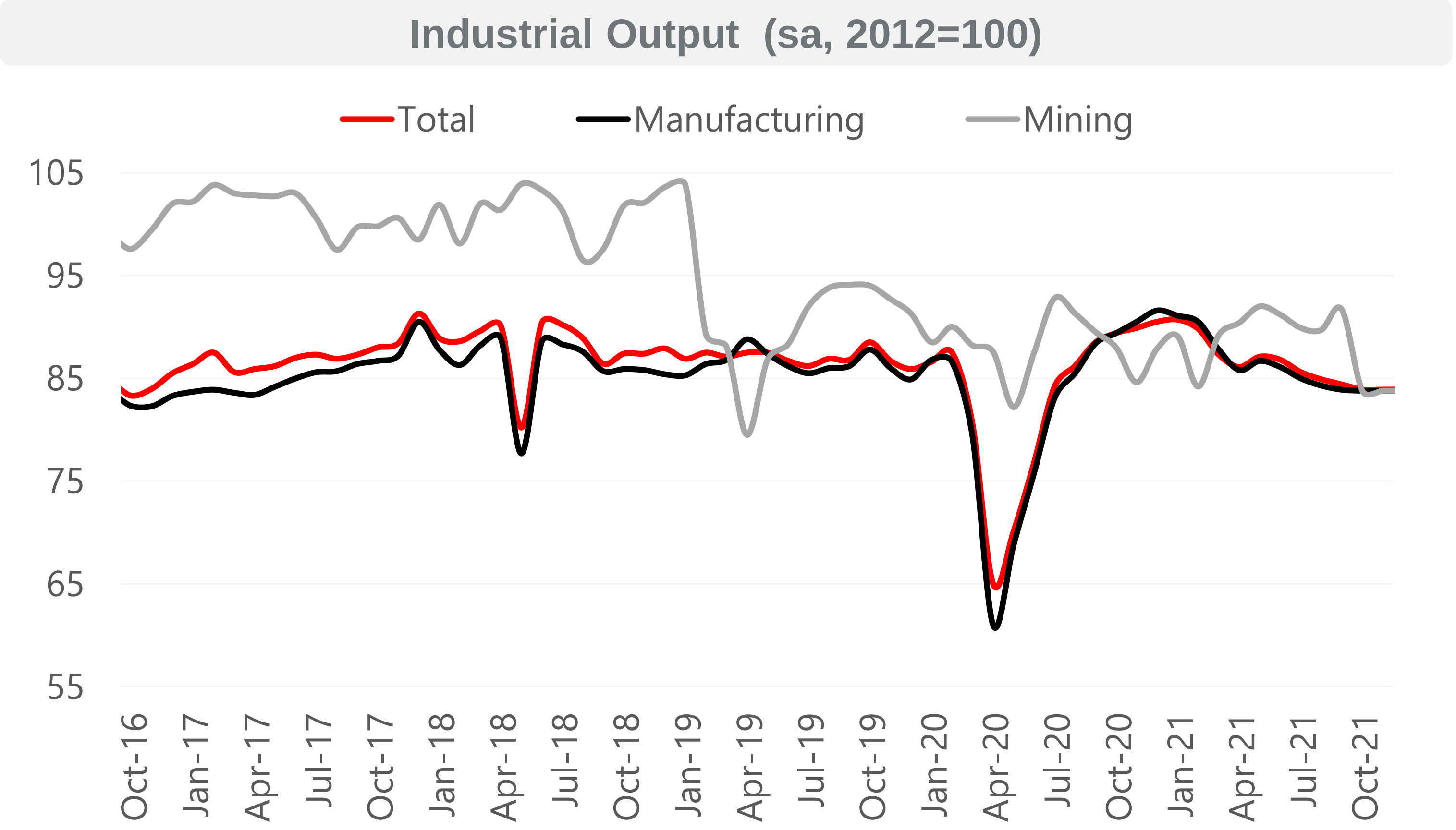
Sources: IBGE, Santander

INDUSTRIAL PRODUCTION

02

Industry Continued To Weigh On Activity Reflecting Supply-chain Issues

- The industrial sector continued to post weak contributions to overall activity in 3Q. Manufacturing continued to weaken, amid the high costs and widespread shortage of inputs, with mining also contributing negatively, after sequential solid gains that cushioned the impact of supply restrictions in manufacturing. Conversely, the construction sector was in the spotlight, avoiding a relevant retreat of industrial GDP during this period.

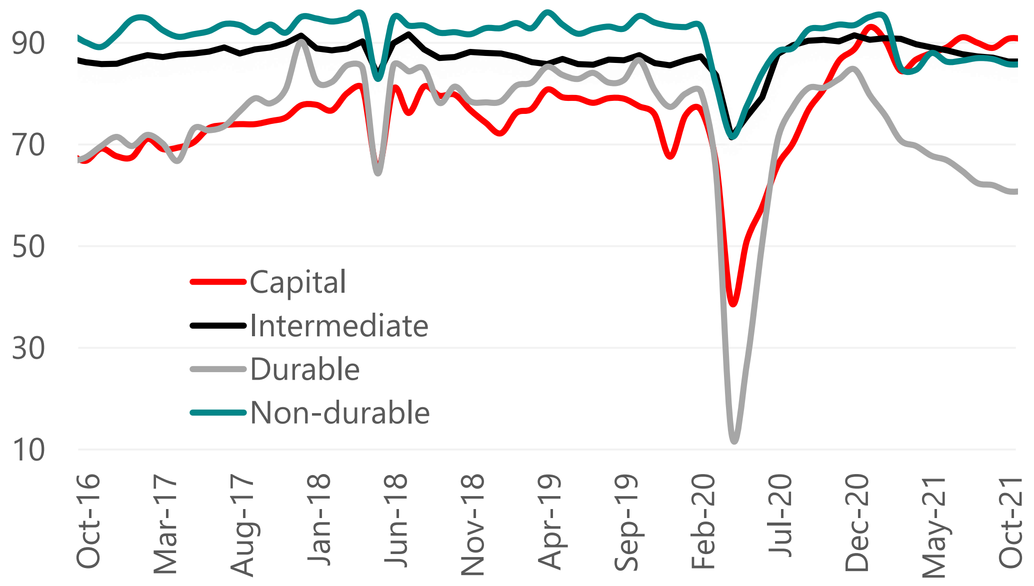


Sources: IBGE, Santander

Investments Still Stand At High Levels But Should Slow Ahead

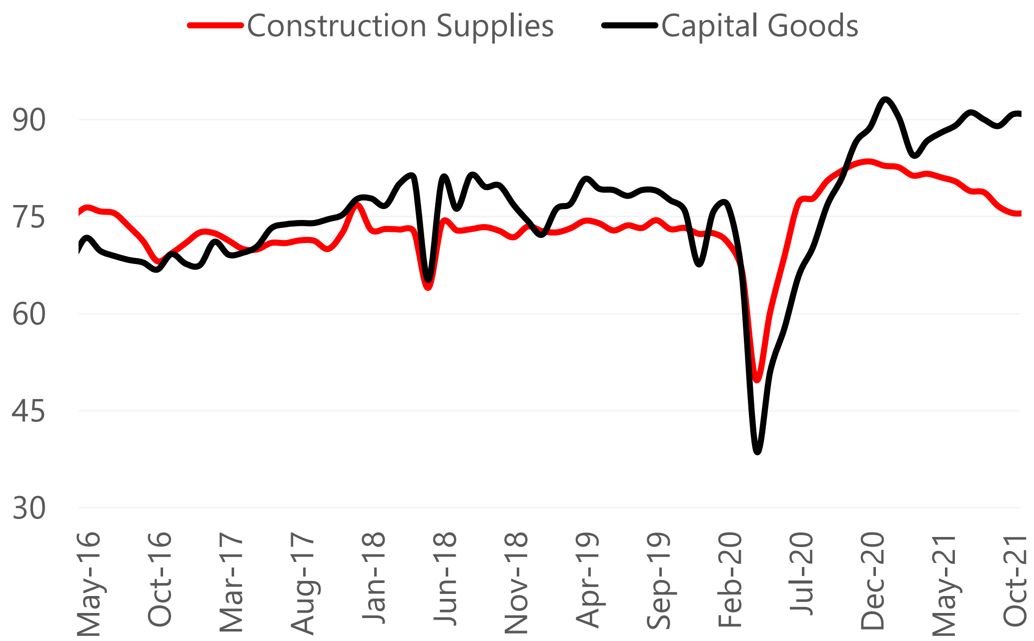
- Selected segments of industrial output still point to high levels of investments, still reflecting the recent easing in financial conditions. Capital goods production remains well above its pre-pandemic average, as well construction supplies. These figures contribute to the likely two-digits investment growth in 2021, which can contribute to support activity next year, with demand finding more supply capacity ahead.

Industrial Production (sa, 2012=100)



Sources: IBGE, Santander

Related to Investments (sa, 2012=100)

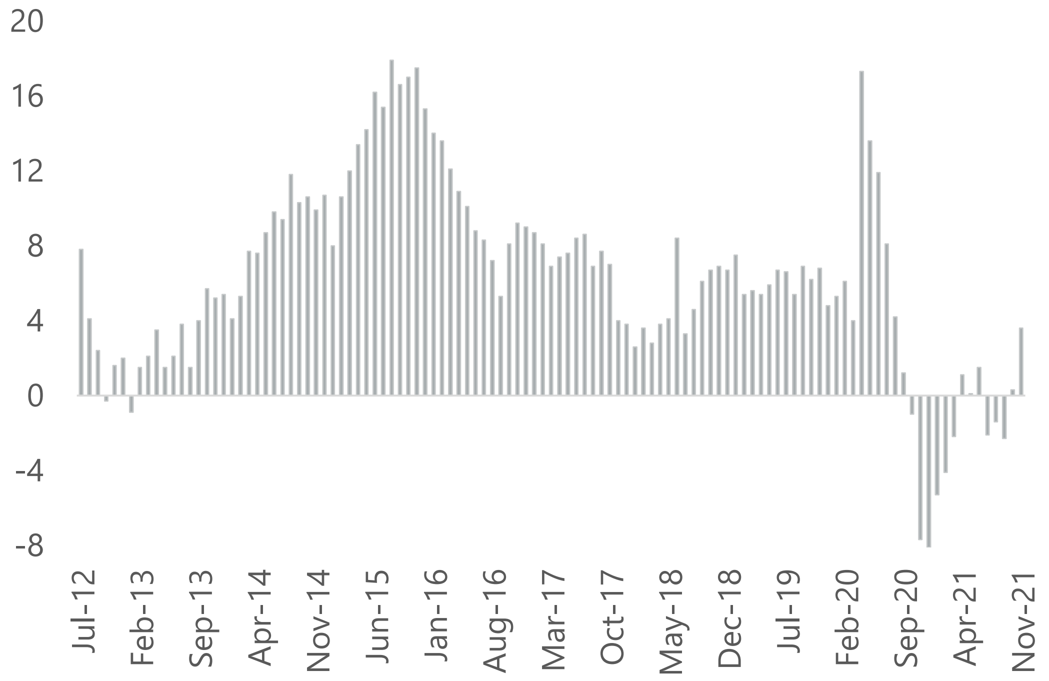


Sources: IBGE, Santander

Do Inventories Begin to Recover?

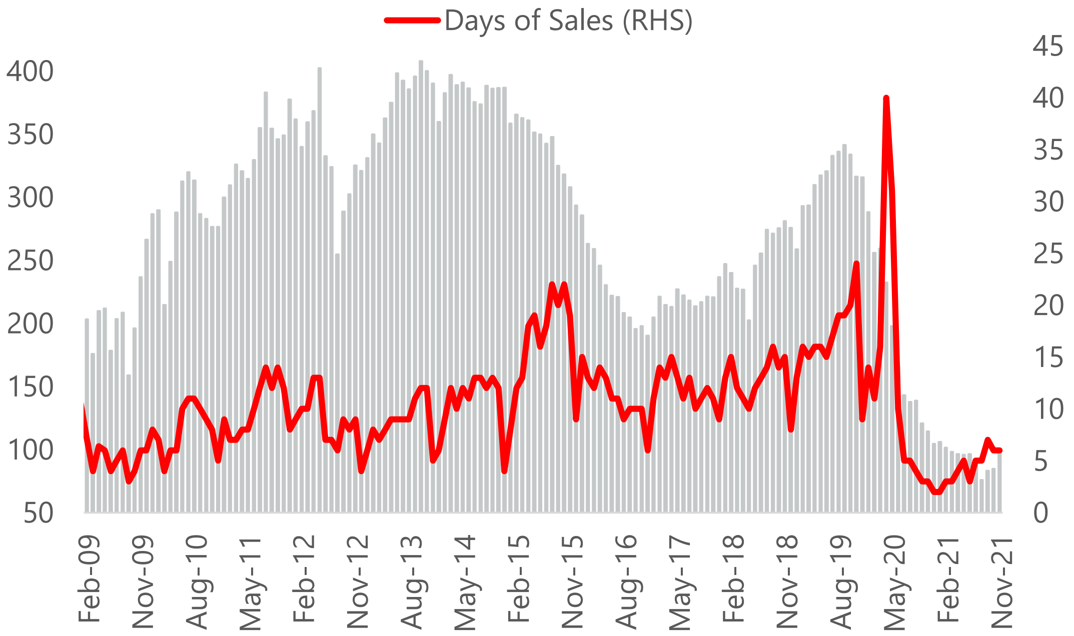
- The historically low inventories level recently reached means that local industry (not only auto factories) had a hard time overcoming high costs and widespread input shortage, amid important supply hurdles seen widespread. However, last results suggested better figures. Inventories replenishment uses to be a tailwind for production ahead, contributing to support activity next year.

Inventories Perception (sa, points)



Sources: FGV, Santander

Auto Inventories (sa, Units in Thousands)



Sources: Anfavea, Santander

Industrial production breakdown

Industrial Production Breakdown										
		% MoM			% YoY			% QoQ		
	Weights	Aug-21	Sep-21	Oct-21	Aug-21	Sep-21	Oct-21	Aug-21	Sep-21	Oct-21
Total Industry	100%	-0.8	-0.6	-0.6	-0.5	-4.1	-7.8	-1.2	-2.0	-2.4
Mining	**11%**	**-0.2**	**2.2**	**-8.6**	**-1.4**	**3.1**	**-4.7**	**-0.3**	**-0.8**	**-2.9**
Manufacturing	**89%**	**-0.8**	**-0.5**	**-0.1**	**-0.4**	**-4.9**	**-8.2**	**-1.9**	**-2.1**	**-2.2**
Capital Goods	8%	-1.2	-1.1	2.0	31.6	15.1	8.4	4.2	2.4	0.6
Intermediate Goods	60%	-0.6	-0.2	-0.9	-1.9	-3.5	-6.4	-2.2	-1.9	-1.8
Consumer goods	32%	-0.4	0.1	-0.6	-4.8	-9.3	-14.0	-0.9	-1.0	-1.2
Durable	7%	-3.7	-0.6	-1.9	-17.9	-23.3	-27.9	-6.8	-7.4	-7.2
Non-Durable	25%	0.6	-0.2	-1.2	-1.3	-5.7	-10.2	0.8	0.5	-0.5
Construction Supplies	**-**	**-0.3**	**-2.7**	**-1.4**	**1.5**	**-4.4**	**-9.8**	**-2.4**	**-3.6**	**-4.0**

Sources: IBGE, Santander

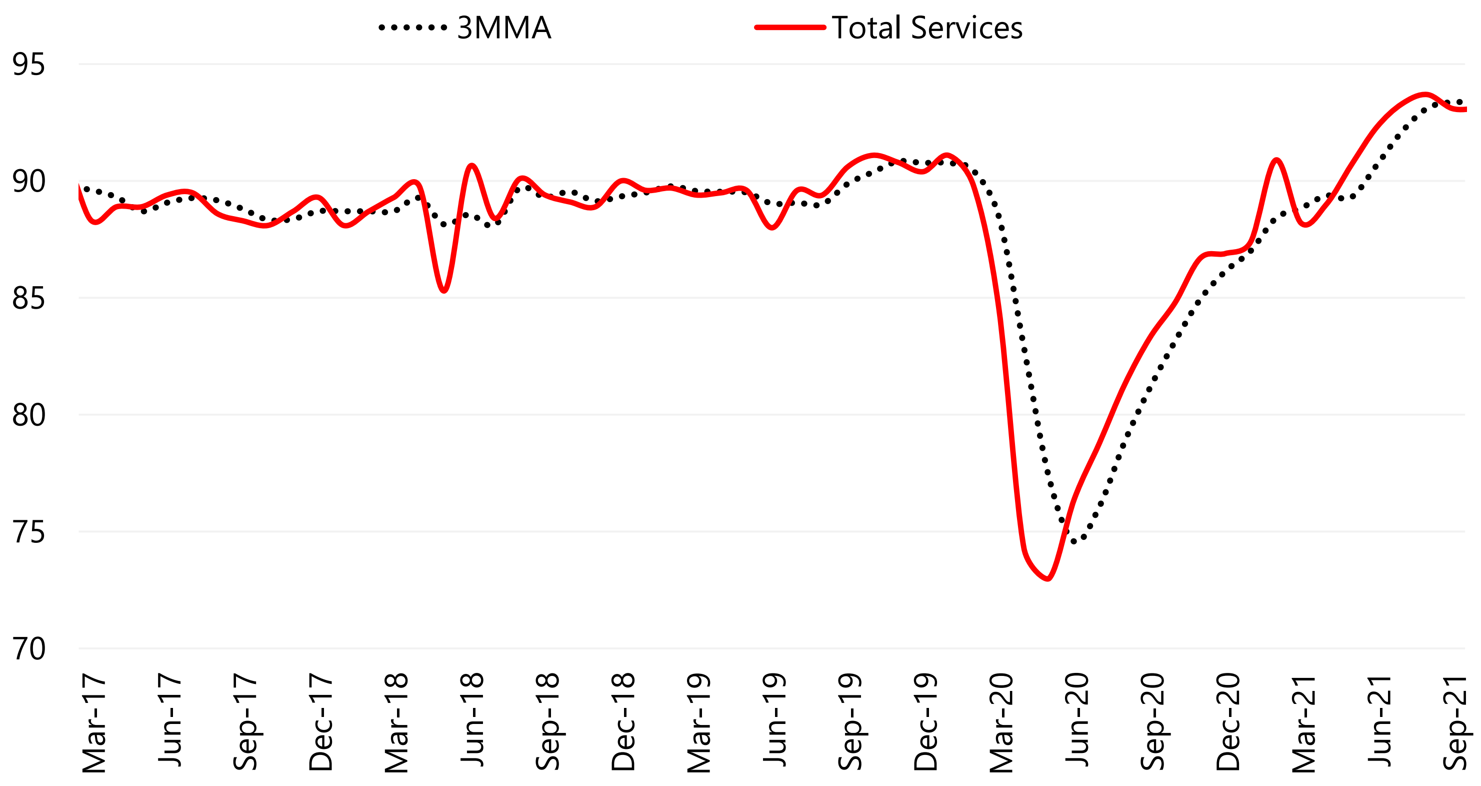
SERVICES

03

Services Decelerate But Still Should Be Benefited From Reopening

- Following the reopening of the economy and the demand shifting from goods towards services, the services sector continued strengthening in 3Q21, mainly driven by mobility-related segments such as Services to Families (e.g, food services, accommodation) and Transports (notably Air Transports). Despite the decline in September, we expect the headline index to be benefited from the reopening, with positive contributions notably from mobility-related segments.

Total Services (sa, 2014=100)

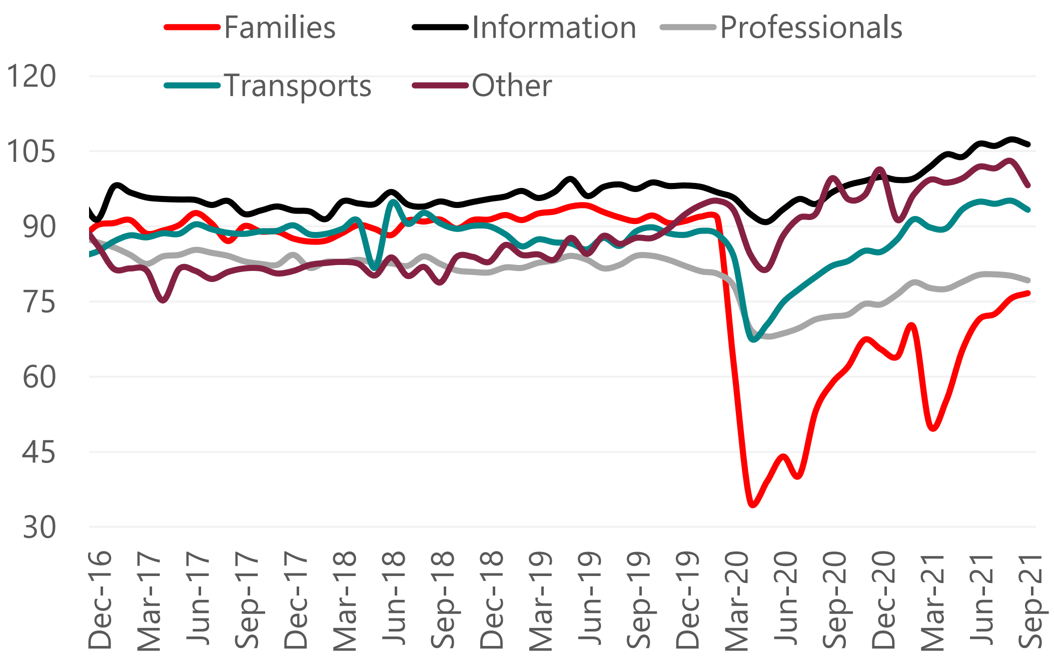


Sources: IBGE, Santander

Services Decelerate But Still Should Be Benefited From Reopening

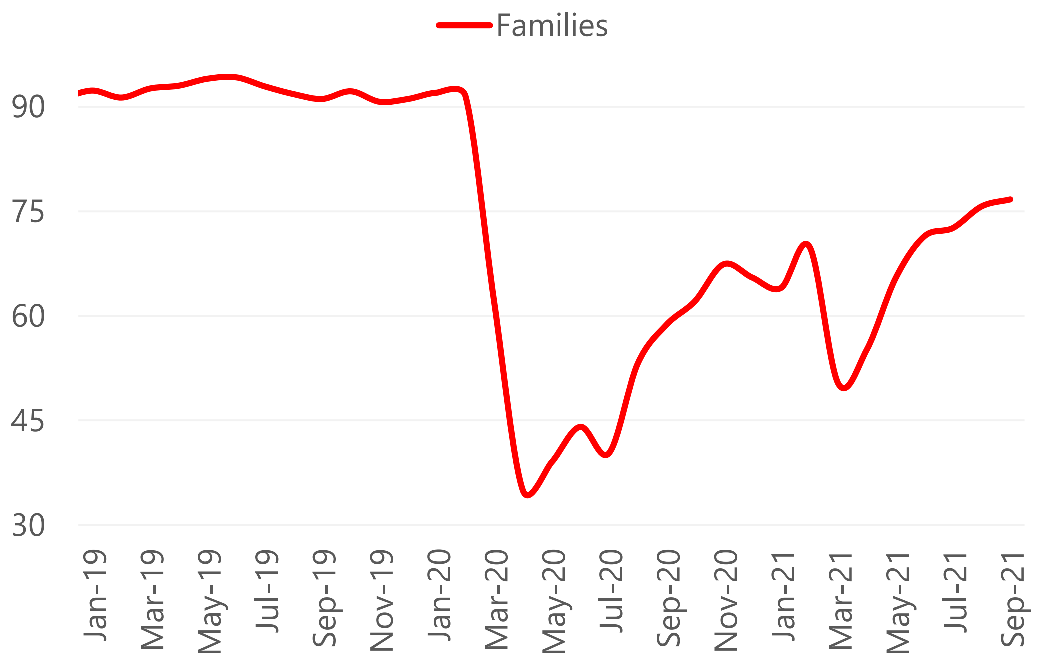
- Services to families continued to strengthening in September, amid widespread drop in the remaining subsectors. This segment still show wide idleness regarding the pre-crisis mark (almost 16%), which leaves room for positive contributions to GDP growth from the services sector. It's worth noting that, despite the small weight in the monthly survey (less than 10%), services to families highly correlates with Other Services, which accounts for roughly 13% of total GDP.

Total Services Breakdown (sa, 2014=100)



Sources: IBGE, Santander

Services to Families (sa, 2014=100)

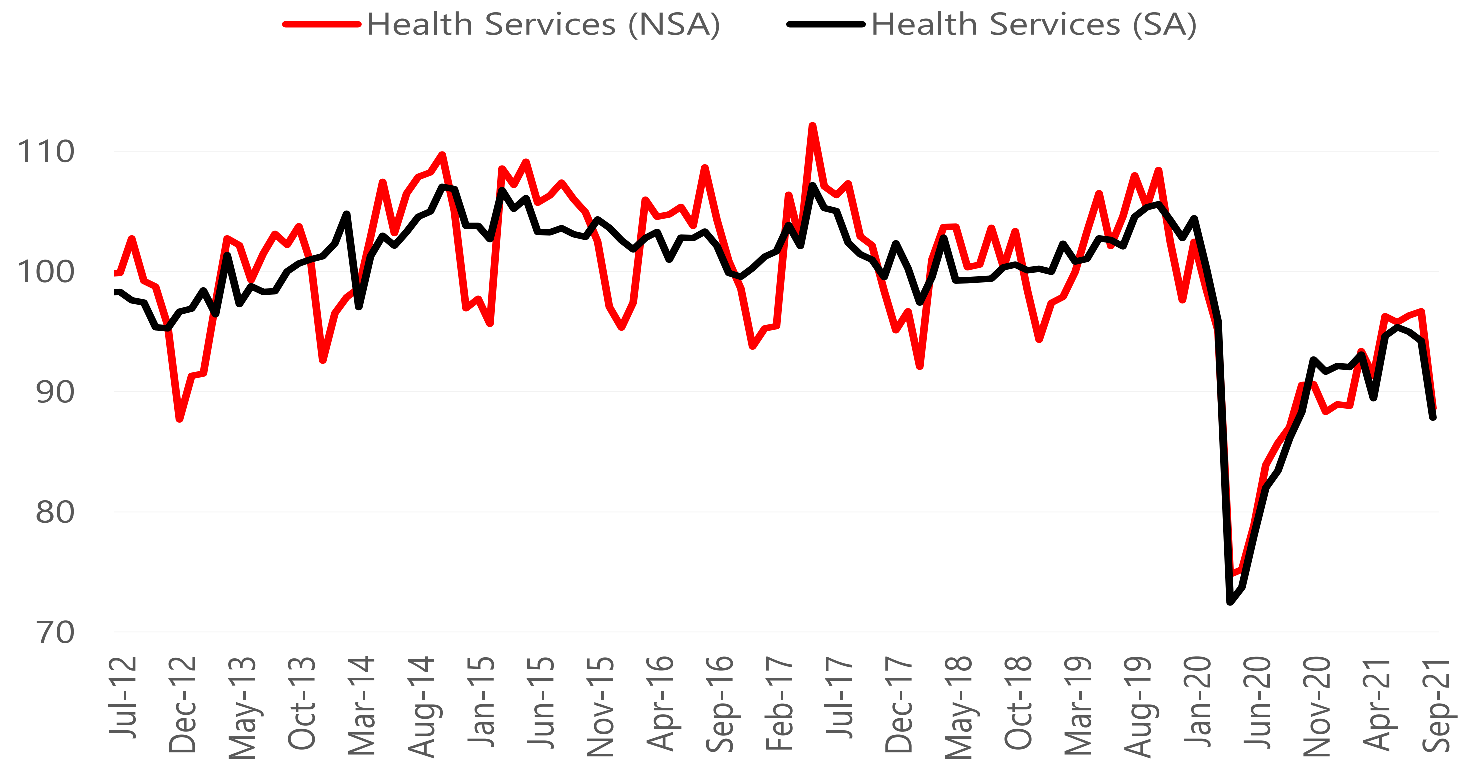


Sources: IBGE, Santander.

Less Cyclical Services Still Show Idleness, Leaving Room For Growth Ahead

- Health services are not captured in the IBGE's monthly survey but are important in the composition of GDP (mercantile health in Other Services and non-mercantile health in Public Services). We expect these segments to recover ahead as mobility increases and sanitary crisis is gradually overcome. Currently, health services stands at levels ~15% below the 2019 average.

Health Services (mercantile and non-mercantile)



Sources: Datasus, Santander. Our seasonal adjustment procedure.

Services sector breakdown

Services Breakdown										
		% MoM			% YoY			% QoQ		
	Weights	Jul-21	Aug-21	Sep-21	Jul-21	Aug-21	Sep-21	Jul-21	Aug-21	Sep-21
Total Services	100%	1.1	0.4	-0.6	17.8	16.5	11.4	3.1	4.3	3.0
Families	**8%**	**1.7**	**4.3**	**1.3**	**76.0**	**42.3**	**32.3**	**19.4**	**28.6**	**17.2**
Accommodation and Food	7%	2.2	4.5	1.7	86.0	46.3	37.2	20.5	30.5	18.6
Other Services to Families	1%	0.9	-0.3	0.0	33.4	23.5	9.2	10.4	9.5	5.2
Information	**31%**	**-0.4**	**1.2**	**-0.9**	**11.1**	**13.6**	**10.0**	**3.5**	**3.2**	**1.6**
Technology	26%	0.4	1.3	-1.2	10.0	12.9	9.4	2.6	2.5	1.6
Telecommunication	19%	0.9	0.0	-1.4	1.9	1.7	-0.3	0.5	0.4	0.2
Information Technology	7%	1.7	2.1	-0.5	23.3	31.6	25.0	5.3	4.4	3.7
Audiovisual	5%	-12.0	2.1	0.8	21.4	20.9	15.7	12.8	11.9	0.6
Professional	**23%**	**0.1**	**-0.4**	**-1.1**	**14.4**	**12.9**	**9.5**	**2.4**	**2.9**	**1.3**
Professional	7%	5.6	-5.8	1.7	23.2	12.5	16.0	5.9	5.1	3.9
Administrative	16%	-0.6	0.1	-1.6	11.0	12.9	7.1	1.9	2.3	0.7
Transportation	**31%**	**-0.4**	**0.6**	**-1.9**	**20.9**	**19.3**	**13.7**	**4.4**	**4.3**	**1.8**
Ground Transportation	18%	-0.1	-0.6	-1.0	21.5	16.8	10.8	2.8	2.7	0.9
Water Transportation	2%	4.8	-2.8	-1.7	21.4	17.6	11.7	2.8	2.1	1.1
Air Transport	3%	-5.7	6.9	-9.0	96.0	86.4	39.6	48.0	47.7	21.1
Storage and Mail	9%	-0.2	1.4	0.6	10.1	12.8	13.6	1.6	0.0	0.2
Other Services	**7%**	**-0.3**	**1.4**	**-4.7**	**11.1**	**11.6**	**-1.5**	**3.0**	**3.0**	**0.9**

Sources: IBGE, Santander

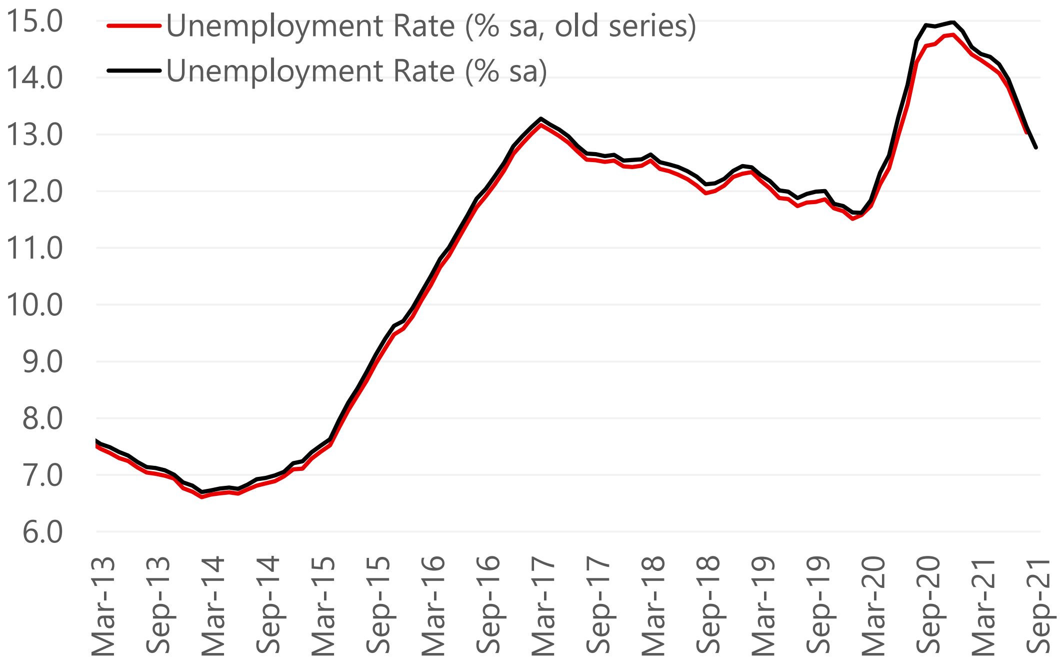
04

LABOR MARKET

Methodological Revisions Slightly Increased the Unemployment Rate

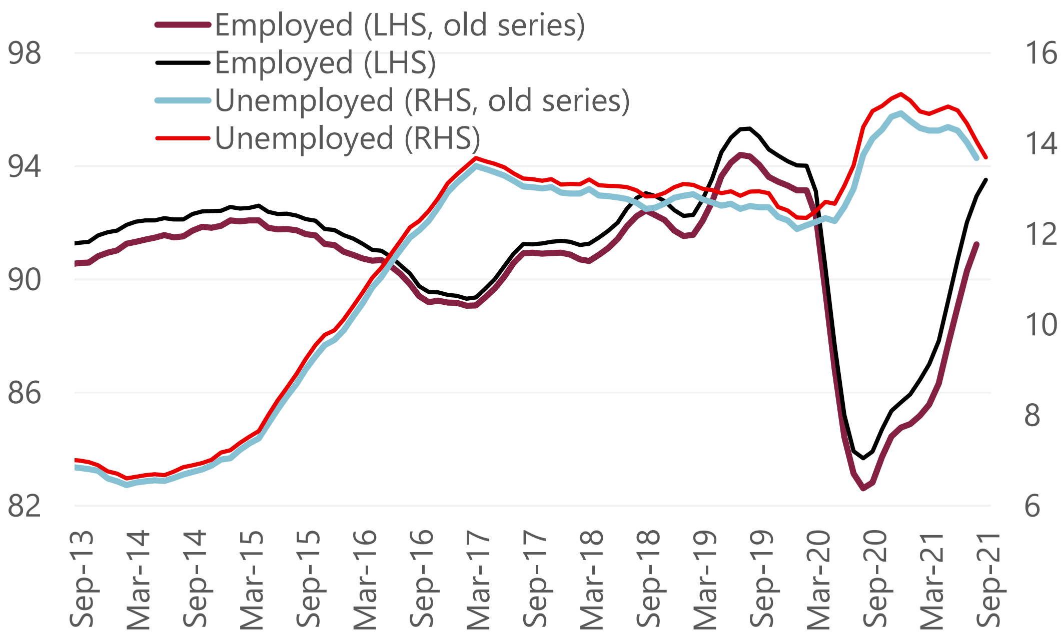
- The September PNAD release brought a methodological revision on all employment series. There was a slight upward impact over the unemployment rate series, especially during the beginning of the pandemic. This stemmed from positive revisions in both the employed population and labor force estimates.

Unemployment Rate Revisions



Sources: IBGE, Santander.

Employment and Unemployment (millions, sa)

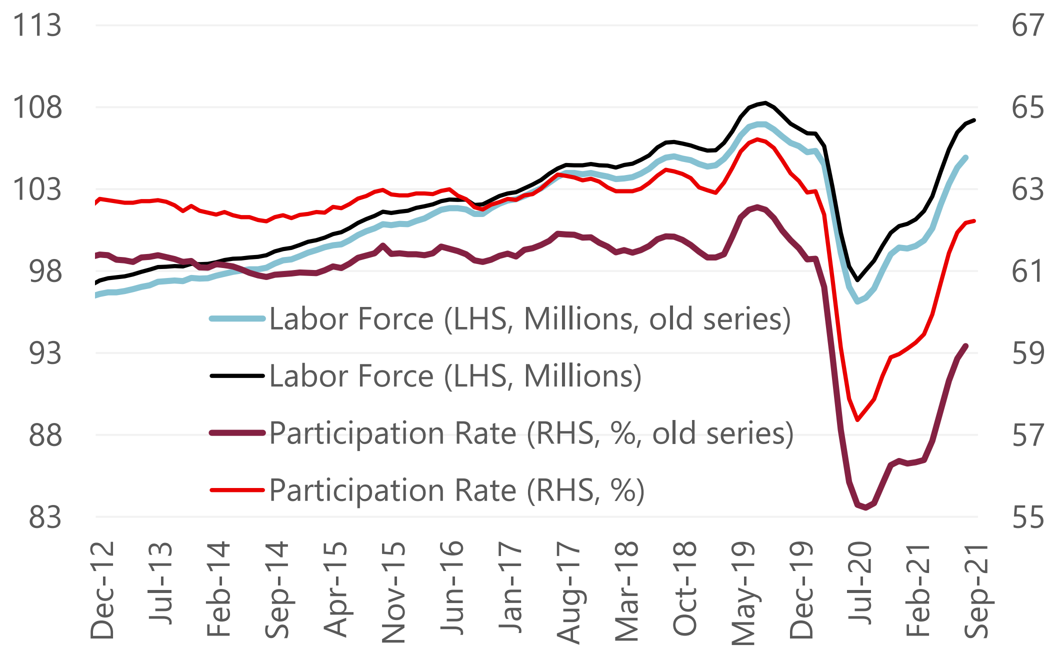


Sources: IBGE, Santander.

Revisions Placed the Labor Market Closer to Pre-Pandemic Levels

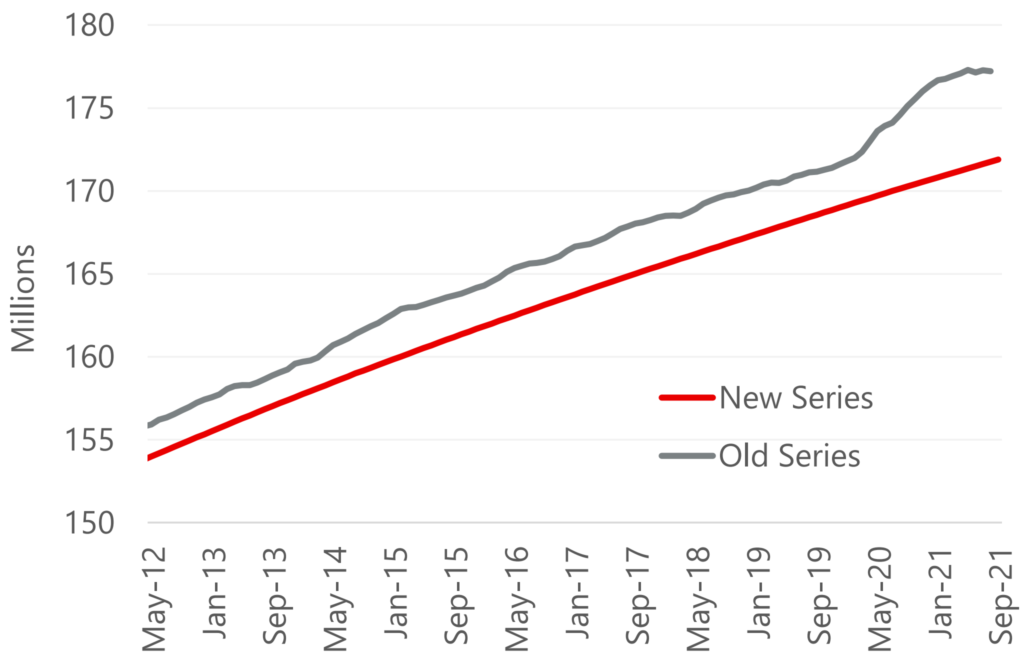
- A significant revision happened in the working-age population estimates. The new series has shown a downward shift and a more reasonable behavior during 2020. As a result, the labor market participation rate has increased, and is now closer to pre-pandemic levels.

Labor Force and Participation Rate Revisions



Sources: IBGE, Santander.

Working Age Population Revisions

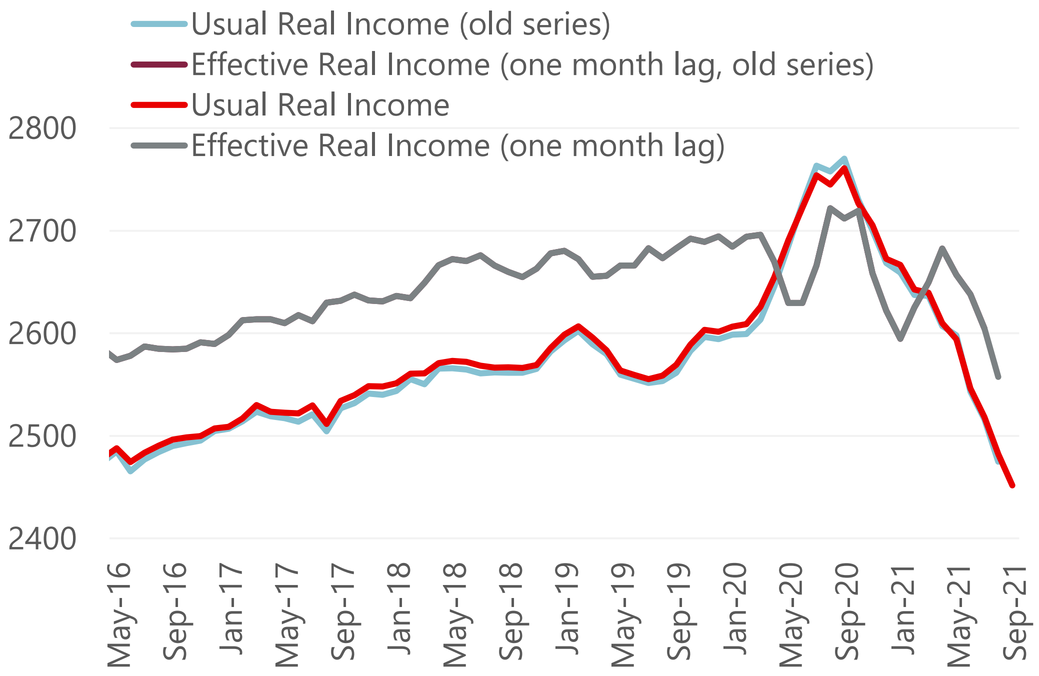


Sources: IBGE, Santander.

Real Income in Depressed Levels

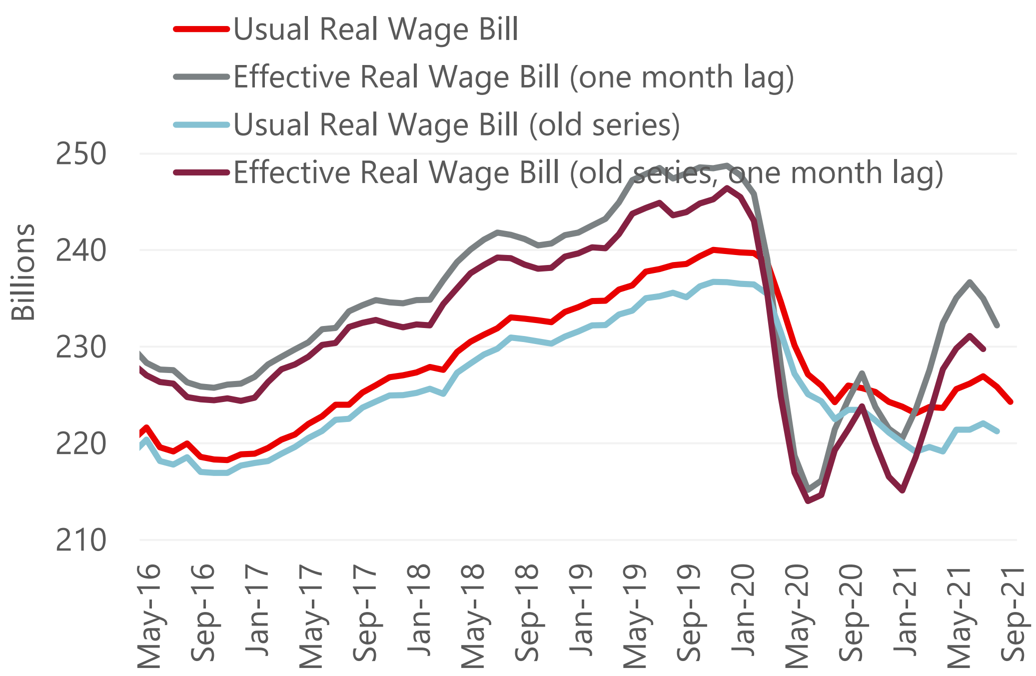
- As for the real income indicators, the revisions were marginal. The series continue to show a negative trend as people returning to the labor market are experiencing lower wages and inflation remains high. The real-wage-bill indicators had a positive impact from the revisions, following the higher figures for the employed population, but also dropped in the September release.

Average Real Income (BRL, sa)



Sources: IBGE, Santander.

Real Wage Bill (BRL, sa)

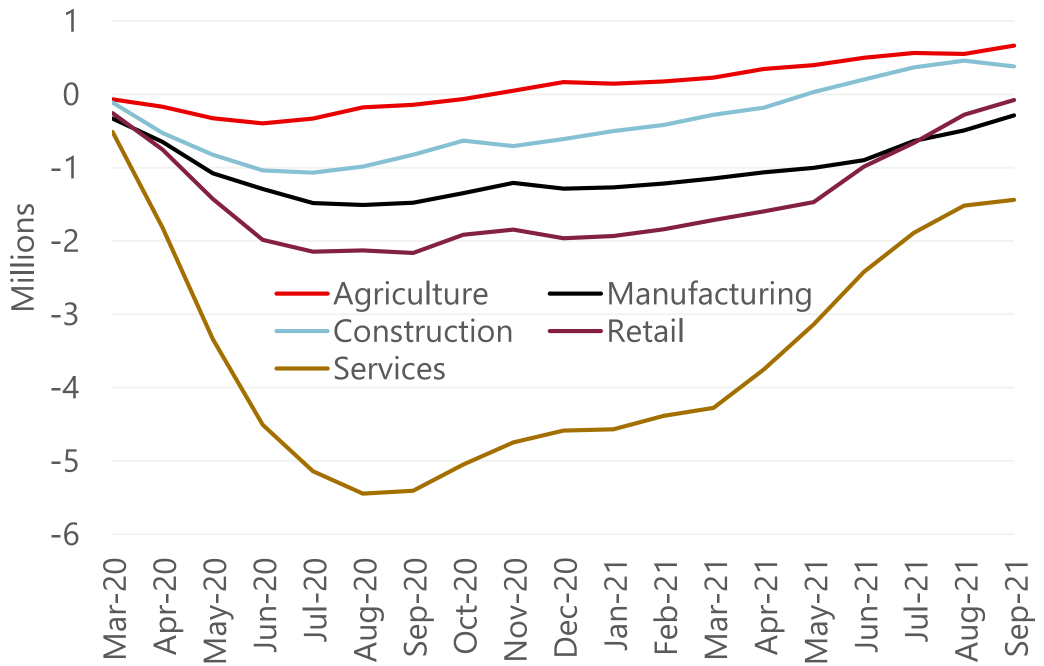


Sources: IBGE, Santander.

Informal Employment Decelerates

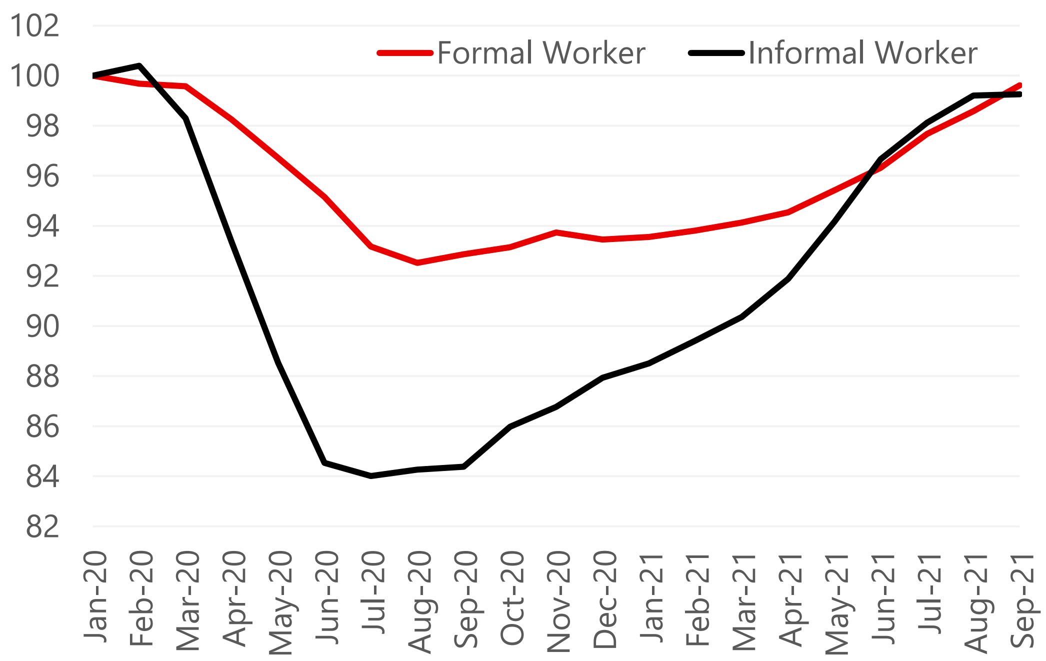
- In our view, the growth in formal employment still seems to be positively impacted by the normalization in the PNAD survey, which has recently resumed in-person interviews, after over one year being made by phone. Informal employment, on the other hand, seems to lose momentum.

Post-Pandemic Accumulated Job Losses (sa)



Sources: IBGE, Santander.

Employment by Position (sa, Jan-20=100)

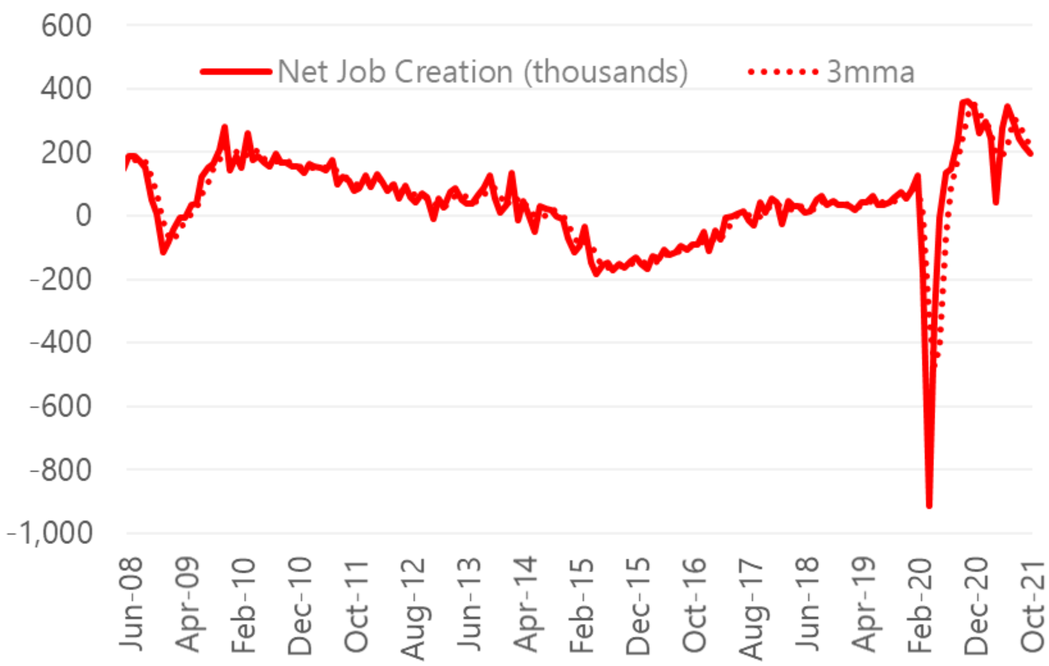


Sources: IBGE, Santander.

CAGED Remains in a Slow Deceleration Trend

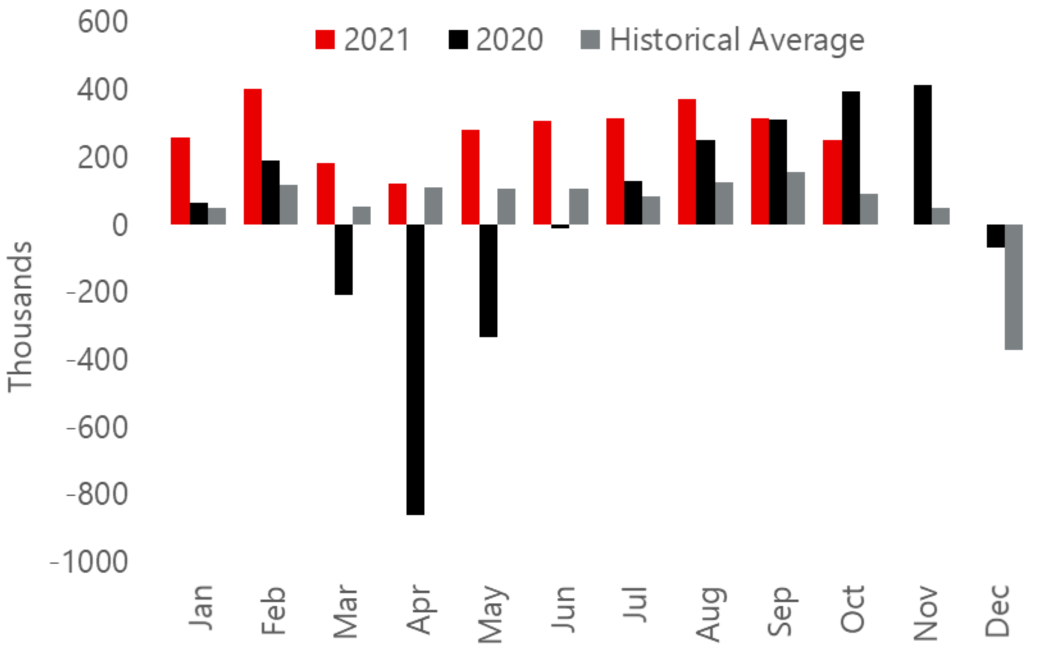
- Since January 2021, CAGED recovery seems to be more aligned with most economic activity statistics, after possible underreporting issues in 2H20. The higher mobility levels since May have led to another acceleration in net formal job creation. We evaluate that the end of the government's job protection program (BEm) has caused the recent deceleration in net job creation.

CAGED Net Job Creation (sa)



Sources: Ministry of Labor, Santander.

Net Job Creation and Historical Average

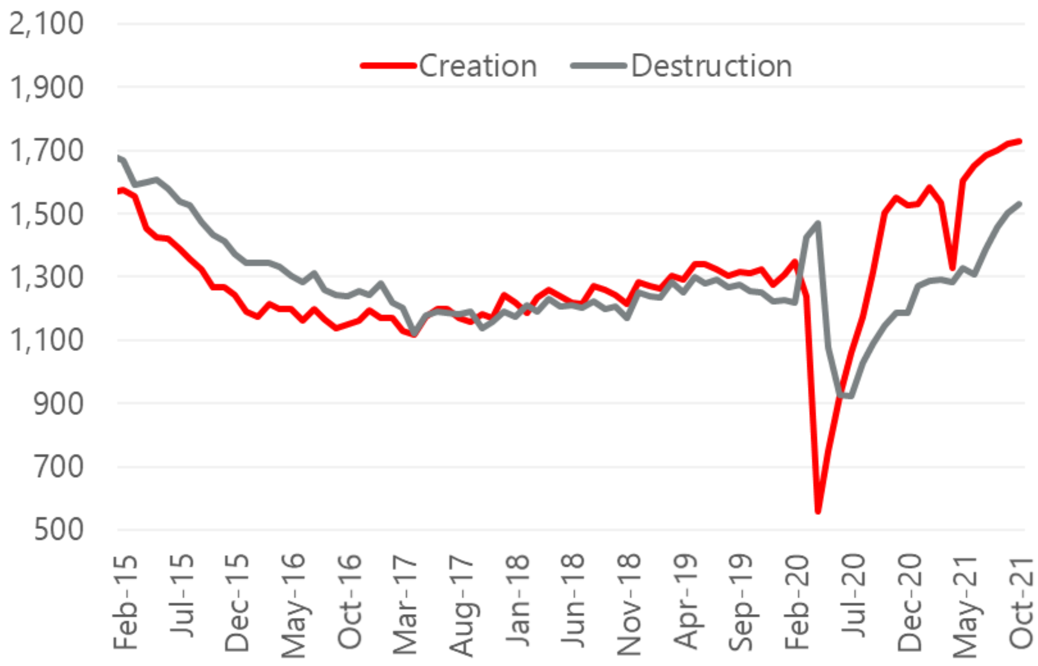


Sources: Ministry of Labor, Santander.

CAGED: End of BEm Program Have Led to an Increase in Layoffs

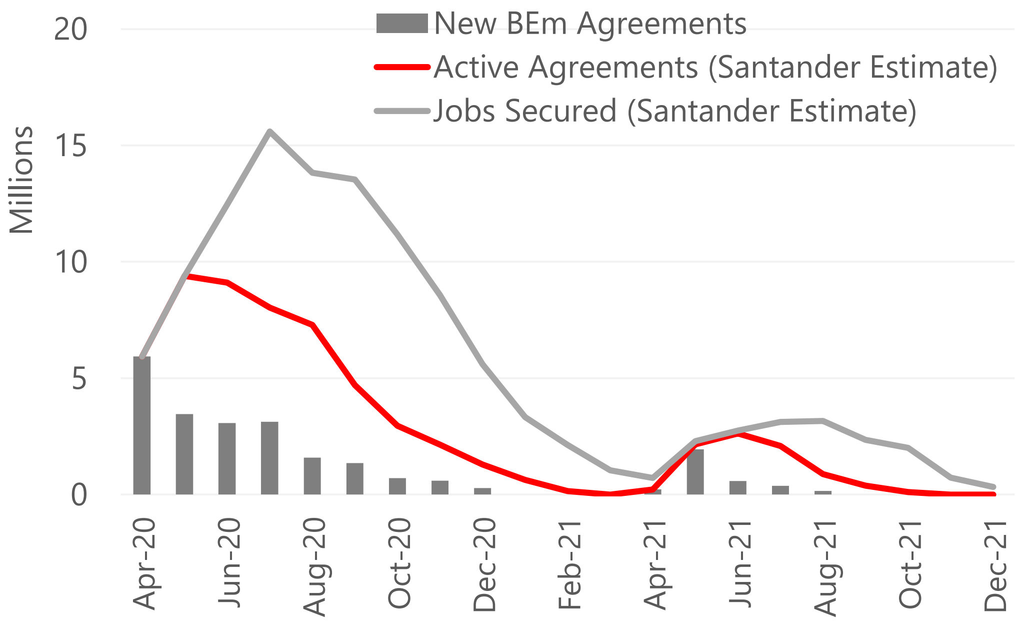
- CAGED shows a slow deceleration, as the end of the formal employment program ("Emergency Benefit for Income and Employment Preservation", or BEm) continues to affect the data, as layoffs remain at recent highs. Furthermore, the positive effects of the reopening process seem to be decreasing, as hiring decelerates.

CAGED: Creation and Destruction (sa)



Sources: Ministry of Labor, Santander.

BEm Agreements and Jobs Secured

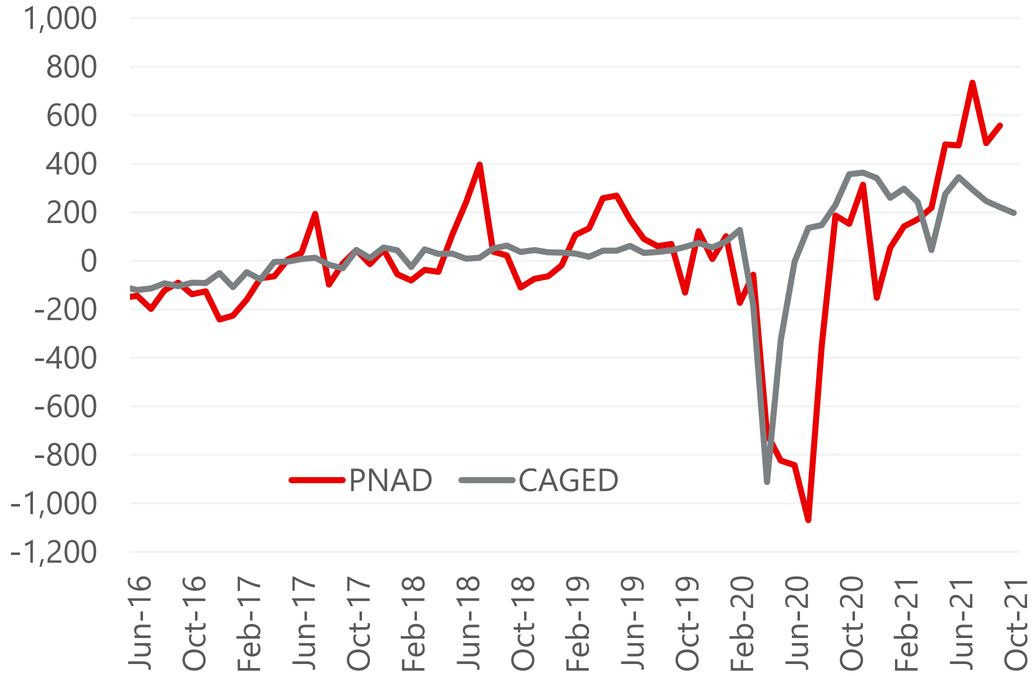


Sources: Ministry of Labor, Santander.

PNAD Data is Correcting the Underestimation in Formal Employment

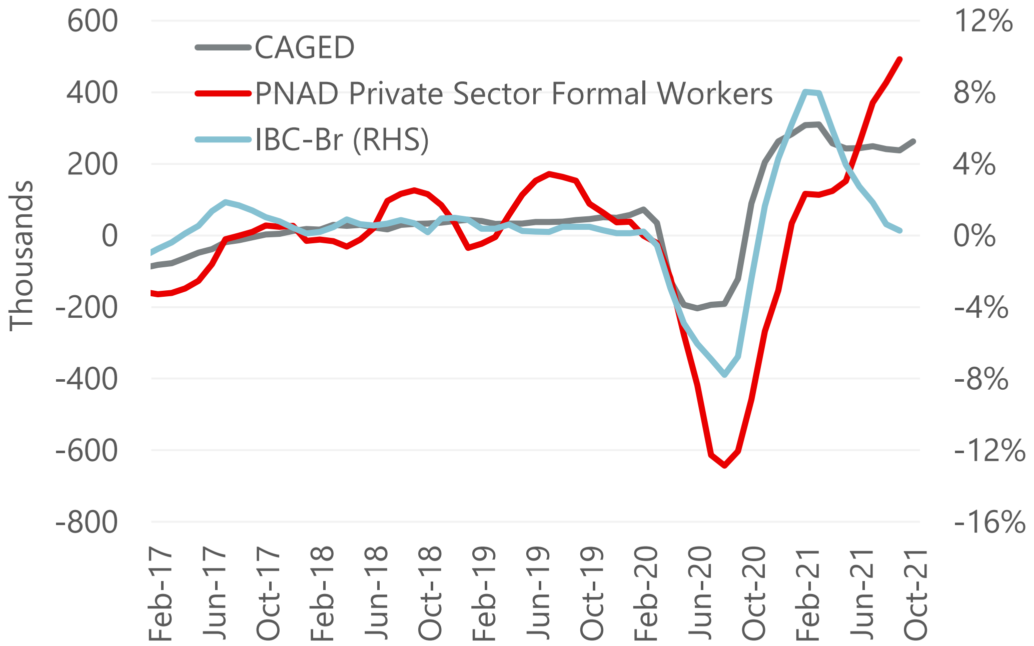
- In our view, the IBGE's efforts to increase the PNAD survey's response rate could have positively affected the formal employment level since June. We evaluate that formal employment in PNAD should decelerate and stay more aligned with CAGED results in the following months.

Net Formal Job Creation (thousands, sa)



Sources: Ministry of Labor, IBGE, Santander.

Net Job Creation and IBC-Br (sa, 6m)



Sources: Ministry of Labor, BCB, IBGE, Santander.

September 2021 PNAD Results

PNAD Breakdown	s.a.			% YoY			% Feb-20*		
	Jul-21	Aug-21	Sep-21	Jul-21	Aug-21	Sep-21	Jul-21	Aug-21	Sep-21
Unemployment rate (%)	13.6	13.1	12.8	-0.4	-1.7	-2.3	1.9	1.5	1.1
Participation rate (%)	61.9	62.2	62.2	4.5	4.5	4.3	-1.0	-0.8	-0.7
Labor force (millions)	106.5	107.0	107.2	9.1	9.0	8.6	0.1	0.6	0.8
Employment	92.0	92.9	93.5	9.6	11.1	11.4	-2.0	-1.1	-0.5
Unemployment	14.4	14.0	13.7	6.0	-3.1	-7.8	2.1	1.7	1.3
Formalization Rate (%)	57.2	57.2	57.4	-2.7	-2.6	-2.3	0.1	0.0	0.3
Formal Workers (millions)	52.7	53.1	53.7	4.7	6.3	7.1	-1.1	-0.6	0.0
Informal Workes (millions)	39.4	39.8	39.8	16.9	18.1	17.7	-0.9	-0.5	-0.5
Average usual earnings (BRL)**	2,518	2,482	2,452	-8.3	-9.4	-8.0	-3.5	-4.9	-6.0
Average effective earnings (BRL)**	2,605	2,557	-	-2.3	-6.0	-	-3.3	-5.1	-
Usual wage bill (BRL bn)**	226.9	225.9	224.3	0.6	0.7	0.0	-5.3	-5.8	-6.4
Effective wage bill (BRL bn)**	235.0	232.2	-	8.6	4.9	-	-4.4	-5.5	-

* Seasonally adjusted variation relative to February 2020 (pre-pandemic) reading. For rates, change is in percentage points.

** In real terms

Sources: IBGE, Santander.

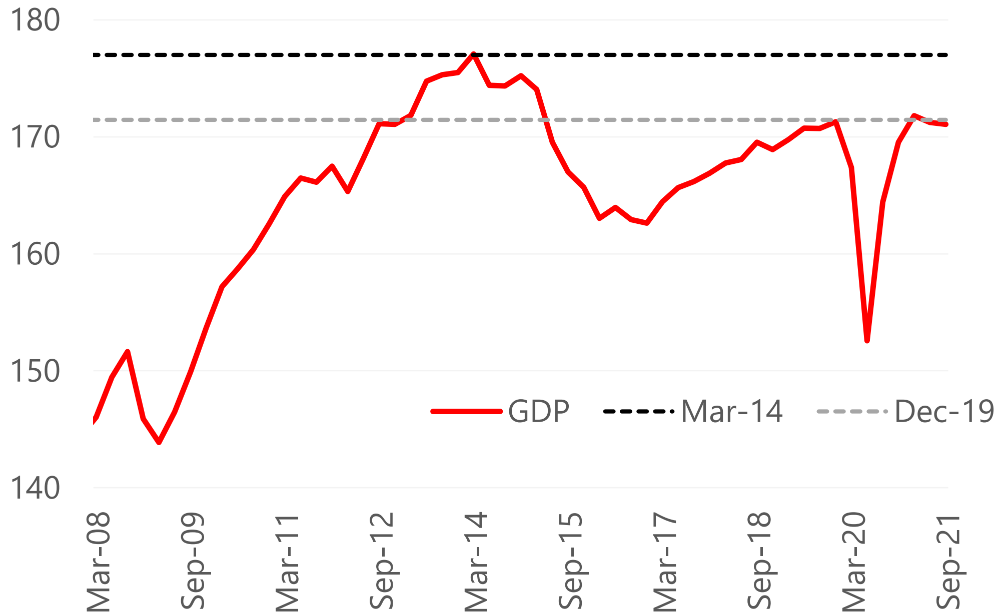
05

GDP

Less-cyclical Farm Output Sector Dragged Down GDP in 2Q And 3Q

- The weak GDP figures seen in 2Q and 3Q reflect a heterogenic composition of economic activity. The services sector continues to rebound, in the wake of the economy's reopening while industry continues to weigh on activity, reflecting the weakness of manufacturing but partially mitigated by mining and construction. However, the cumulated contraction in two quarters stems mainly from farm output, which more than offset its positive contribution seen in 1Q21. See details*.

GDP (sa, 1995=100)**



Sources: IBGE, Santander.

*"*The second GDP Retreat in a Row*" – December 02, 2021 - Available on: https://bit.ly/Std-GDP-120221

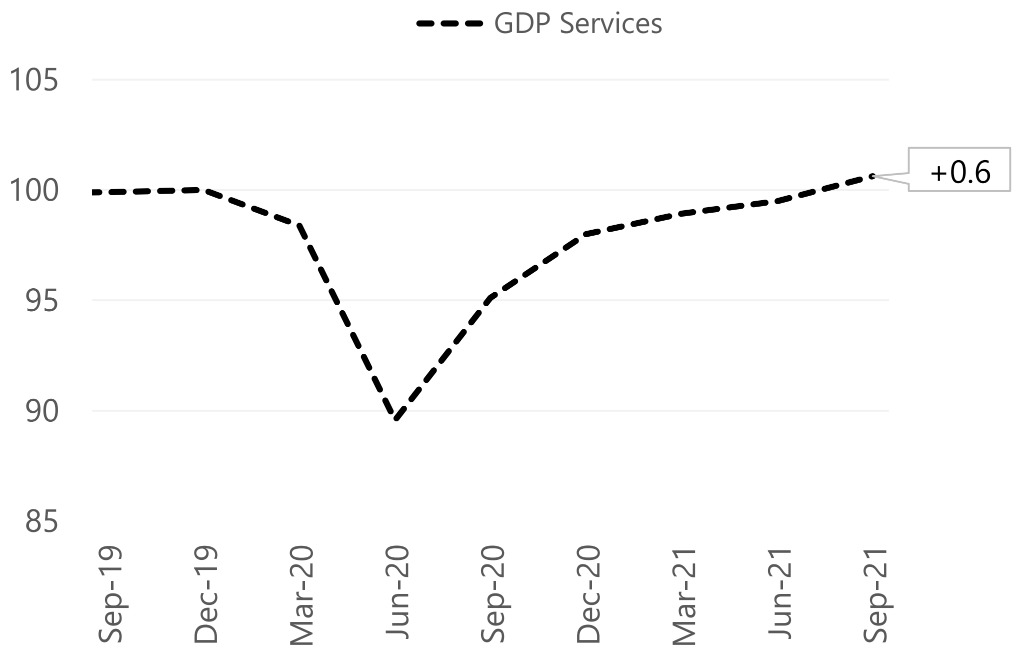
** *GDP* is 0.1% and 3.4% below the highlighted marks.

	2Q21		3Q21		Rolling 4Q	4Q19*
	% YoY	% QoQ	% YoY	% QoQ	%	%
GDP	**12.3**	**-0.3**	**4.0**	**-0.1**	**3.9**	**-0.1**
Supply						
Taxes	16.6	-0.6	6.2	0.3	5.8	1.7
Agriculture	**0.1**	**-2.8**	**-9.0**	**-8.0**	**0.2**	**-5.2**
Industry	**16.6**	**-0.6**	**1.3**	**0.0**	**5.1**	**1.1**
Mining	6.9	6.9	3.5	-0.4	0.2	1.0
Manufacturing	25.3	-2.5	-0.7	-1.0	7.8	0.5
Construction	13.5	2.7	10.9	3.9	5.6	6.5
Utilities	1.5	1.2	-4.6	-1.1	-0.9	-0.7
Services	**11.0**	**0.6**	**5.8**	**1.1**	**3.3**	**0.6**
Retail	20.8	-0.5	2.8	-0.4	7.1	3.0
Transports	25.3	1.1	13.1	1.2	8.0	1.8
Information	15.4	4.8	14.8	2.4	9.6	13.0
Financial	-0.1	-0.1	-1.3	-0.5	1.8	3.4
Other Services	16.6	2.5	13.5	4.4	2.1	-3.8
Rents	3.1	0.1	1.8	0.0	3.0	4.6
Public Services	5.5	-0.1	2.9	0.8	0.1	-3.1
Demand						
Consumption	**10.6**	**-0.2**	**4.2**	**0.9**	**2.1**	**-2.1**
Government	**5.8**	**0.9**	**3.5**	**0.8**	**0.4**	**-2.2**
Investments	**33.1**	**-3.0**	**18.8**	**-0.1**	**20.2**	**18.0**
Exports	**14.2**	**13.7**	**4.0**	**-9.8**	**3.8**	**1.4**
Imports	**20.3**	**-1.2**	**20.6**	**-8.3**	**10.3**	**-2.7**

Services Sector Surpassed The Pre-Covid Mark But We Expect Rebound To Continue

- Other Services and Public Services account for almost 30% of GDP and are still running at a well-depressed basis (3.8% and 3.1% below 4Q19 level, respectively). We expect these segments to partially fill their pre-pandemic gaps, contributing to the economic recovery from 4Q21 onwards. The transports segment had already surpassed the pre-crisis mark, but air transport still shows wide idleness**, which leaves room for sequential growth ahead.

GDP Services (sa, 4Q19=100)*

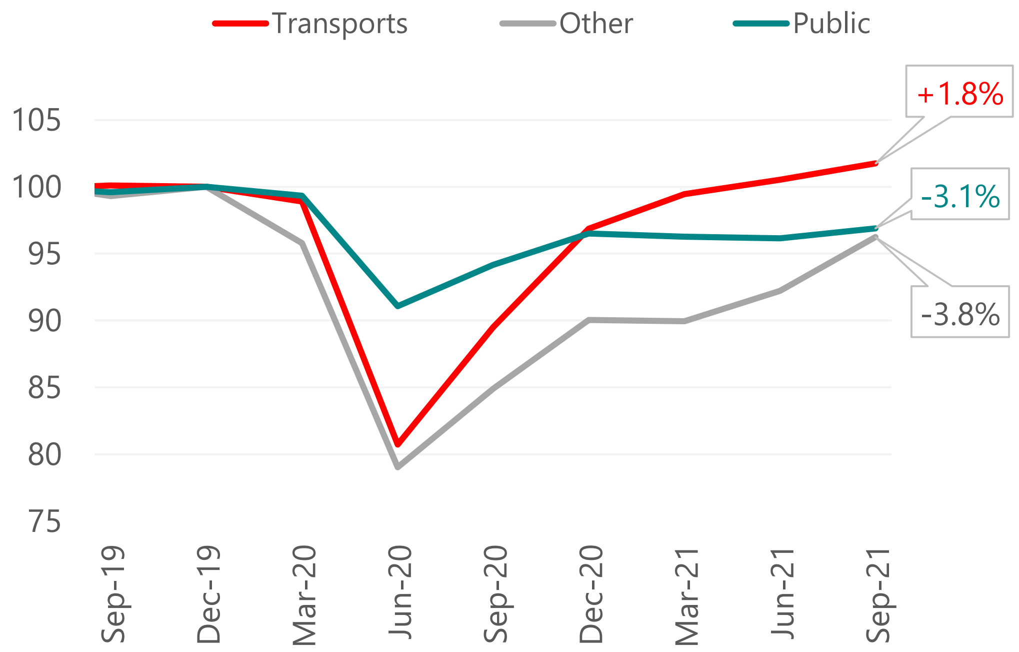


Sources: IBGE, Santander.

- The services sector reached levels 0.6% above the pre-crisis mark (4Q19).

** *Services Retreated at the end of 3Q21"* – November 12, 2021 - Available on: https://bit.ly/Std-Econact-111221.

Health and Mobily-Related Segments (4Q19=100)



Sources: IBGE, Santander.

- Transports, Other Services and Public Services account for 4%, 13% and 15%, respectively, summing up 30% of GDP.
- Other Services: Leisure, restaurants, health and education (mercantile).
- Public Services: Public administration, health and education (non-mercantile).

BASELINE SCENARIO

06

GDP: Key Hypotheses, Basic Description And Risks

- We assume maintenance ahead of the perennial mobility recovery, with no setbacks in the economic reopening process. Moreover, we assume limited episodes of corporate bankruptcy, meaning no major and persistent impact on the country's productive capacity.

- We are lowering our GDP growth forecasts for the horizon of 2021 to 2023. For this year, our estimate is 4.6% (previous 4.9%), as 3Q21 activity was not as strong as previously thought, mainly owing to the goods-related sectors and disappointing farm output. Regarding the current quarter, the negative carryover implied by September's results, high inflation, the weakening in economic confidence, and increasing uncertainty bring challenges for overall activity in 4Q21. However, we still expect sequential GDP growth, stemming mainly from good contributions from mobility-related services segments (e.g., Services to Families), which still show wide idleness relative to the pre-pandemic period, and from a rebound in farm output.

- A tighter monetary policy prompted us to reduce our GDP estimate to 0.7% (from 1.0%) in 2022 and to -0.2% (from 0%) in 2023. For 2022, we expect good growth contributions to come from the mechanical recovery of the services sector, mainly from those sectors that still show idleness regarding the pre-pandemic mark. In addition, we expect some hand lent by the labor market recovery (with an expected real wage bill expansion as a byproduct) and by the strength in less cyclical commodity-related sectors. These factors are expected to be somehow shadowed by the delayed effects of a tighter monetary policy and worse financial conditions. For 2023, we expect the lagged effects of monetary policy and financial conditions to prevail, leading to a retreat in overall activity.

- **Upside risks:** stronger than expected effect of economic reopening on services reliant on social interaction. Faster than expected solution to supply-chain disruptions in manufacturing. A stronger than expected farm output.

- **Downside risks:** a prolonged shortage of inputs in some production chains in manufacturing. A stronger inflationary shock making the BCB's policy stance even tighter.

GDP Path And Breakdown

GDP Baseline Scenario			
	YoY	QoQ	Full Year
4Q20	-0.9%	3.1%	-3.9%
1Q21	1.3%	1.3%	
2Q21	12.3%	-0.3%	
3Q21	4.0%	-0.1%	
4Q21	1.5%	0.4%	4.6%
1Q22	0.9%	0.3%	
2Q22	1.0%	0.2%	
3Q22	0.8%	-0.3%	
4Q22	-0.2%	-0.3%	0.7%
1Q23	-0.4%	-0.1%	
2Q23	-0.6%	0.0%	
3Q23	-0.2%	0.2%	
4Q23	0.3%	0.3%	-0.2%

Sources: IBGE, Santander

GDP Projections					
	2018	2019	2020	2021e	2022e
Total GDP	1.8	1.2	-3.9	4.6	0.7
Agriculture & Livestock	1.3	0.4	3.8	0.2	5.0
Industry	0.7	-0.7	-3.4	4.9	-1.4
Services	2.1	1.5	-4.3	4.8	1.3
Household Consumption	2.4	2.6	-5.4	3.2	1.0
Government Consumption	0.8	-0.5	-4.5	2.3	2.1
Investments	5.2	4.0	-0.5	14.9	-0.6
Exports	4.1	-2.6	-1.8	7.0	2.0
Imports	7.7	1.3	-9.8	10.9	4.7

Sources: IBGE, Santander

Labor Market: Persistently High Unemployment

- In light of a more restrictive monetary policy path and a higher economic uncertainty, we are reviewing our unemployment rate trajectory. As the positive effect of the reopening process fades, the tepid economic activity should limit the room for employment growth. As a result, we now see the unemployment rate in a stable path at high levels throughout 2022 and 2023.

- Already accounting for the full series revision in the September PNAD release, we estimate an average unemployment rate of 13.8% in 2021 (unchanged from last review), 14.0% in 2022 (previously 13.7%) and 14.0% in 2023 (previously 12.9%).

- **Upside risks:** Faster than expected growth in employment on the heels of the economic reopening.

- **Downside risks:** Stronger inflationary pressures leading the BCB to adopt an even tighter monetary policy stance. A resurgence in the pandemic leading to a resumption of restrictive measures, impacting employment and the labor force.

	2019	2020	2021e	2022e	2023e
Unemployment Rate *					
Average	12.1	13.5	13.8	14.0	14.0
End of Period (s.a.)	11.8	14.9	13.5	14.0	13.9
Unemployed Population **					
Average	12.9	13.6	14.5	15.3	15.4
End of Period	12.6	15.1	14.7	15.3	15.3

* in %

** in Millions

Sources: IBGE, Santander.

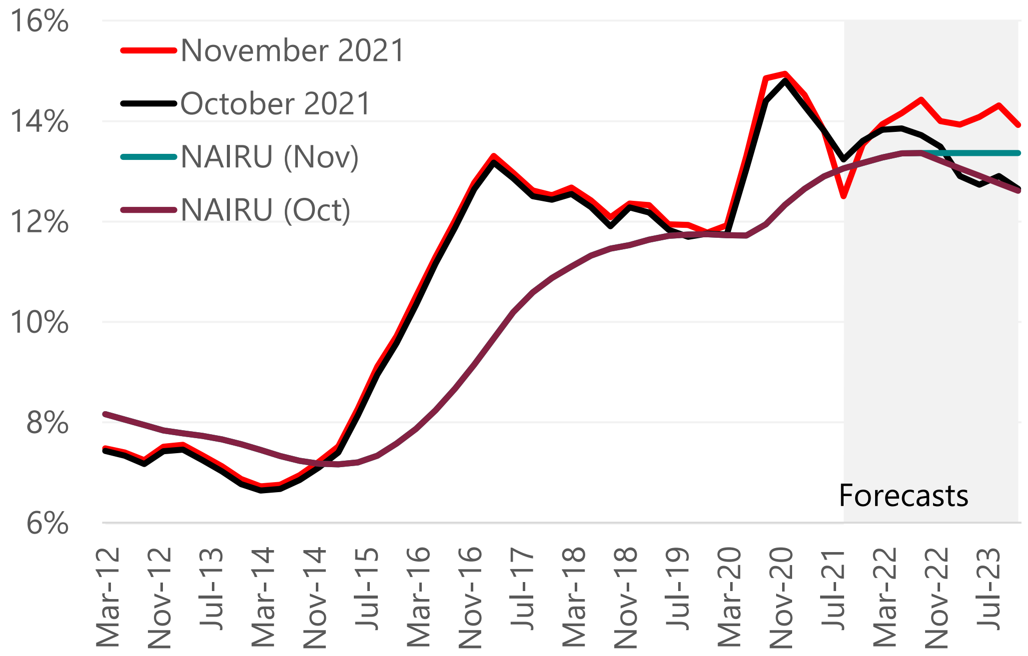
Unemployment Rate to Remain Flat Throughout 2021, 2022 and 2023

- We evaluate that the job market trend has worsened considerably, as we no longer expect reduction in the unemployment rate for the next two years. We still believe that the job market remains slackened, as we do not see the unemployment rate reaching the NAIRU level before YE2023.

		Oct -21	Dec-21
Unemployment Rate (avg)	2021	13.8	13.8
	2022	13.7	14.0
	2023	12.9	14.0
Unemployment Rate (YE, sa)	2021	13.6	13.5
	2022	13.5	14.0
	2023	12.6	13.9
Unemployed (YE, Millions sa)	2021	14.5	14.5
	2022	14.6	15.3
	2023	13.9	15.4

Sources: IBGE, Santander.

New Unemployment Rate Trajectory (sa)

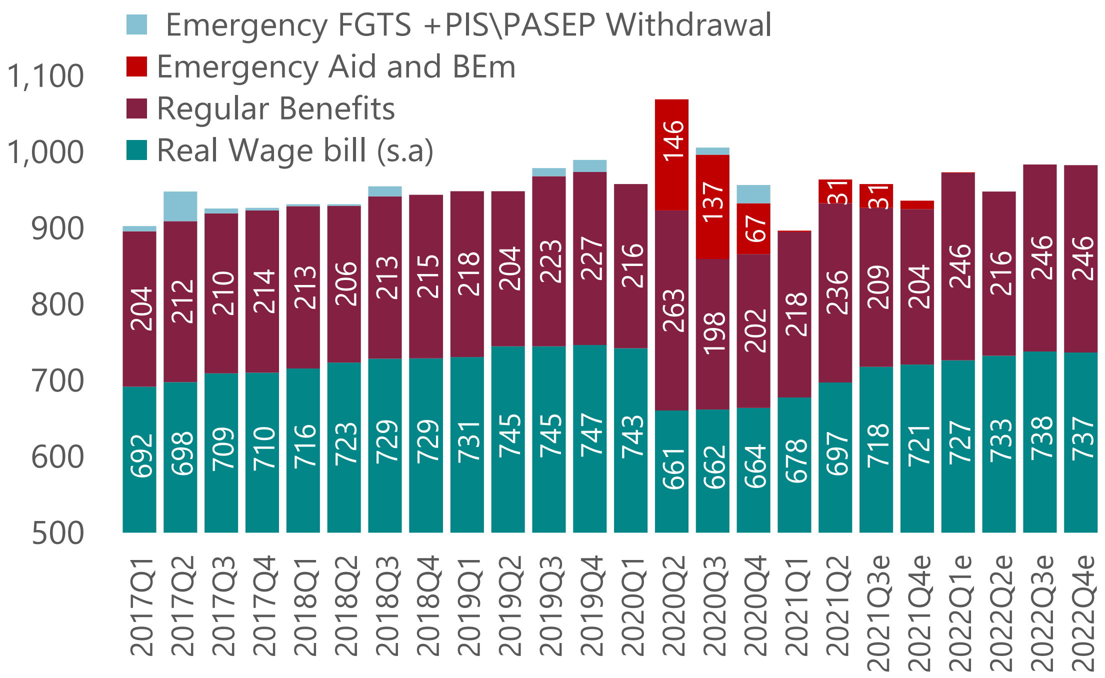


Sources: IBGE, Santander.

“Expanded” Real Wage Bill Will Drop in 2021, With Partial Recovery in 2022

- Considering PEC of *Precatórios*, with the government transfers increase, the overall effect on the real wage bill is neutral. The effect of the new value of the welfare program and the revised value of regular transfers (impact of +1.3p.p.) barely offsets the negative impact of labor income due to inflation and monetary policy (-1.2p.p.). We now expect the “expanded” real wage bill to post 3.5% growth in 2022 (from 3.4% in our last review). Considering the revised levels of inflation and the Selic rate for the alternative simulations, we estimate the growth of the “expanded” real wage bill as between 3.0% and 4.3%. We still consider these scenarios as compatible with an expansion of household consumption of around 1.0% in 2022.

“Expanded” Real Wage Bill (BRL billion)



Sources: National Treasury, IBGE, Ministry of Economy, Santander.

	2020	2021(E)	2022(E) - Selic Rate Simulation 10.00%	11.50%	13.00%
Real Wage Bill (No Fiscal Stimulus)	-7.9%	+3.3%	+4.6%	+4.2%	+3.7%
Real Wage Bill (Fiscal Stimulus + Auxilio Brasil BRL35bn)	+3.7%	-5.8%	+2.7%	+2.4%	+2.1%
Real Wage Bill (Fiscal Stimulus + Auxilio Brasil BRL82bn)			+3.9%	+3.5%	+3.2%

Sources: National Treasury, IBGE, Ministry of Economy, Santander.

Macro scenario: projections

- For our Scenario Review 'HIGHER FISCAL (AND INFLATION) RISKS WEIGH ON THE GROWTH OUTLOOK' (sent on December 02, 2021), **click on the link:** https://bit.ly/Std-scenreview-dec21*

Macroeconomic variables		Previous		Current
GDP (%)	2021E	4.9	↓	4.7
	2022E	1.0	↓	0.7
	2023E	0.0	↓	-0.2
IPCA (%)	2021E	9.6	↑	10.5
	2022E	5.2	↑	5.8
	2023E	3.5	→	3.5
Selic Rate (% end of period)	2021E	9.25	→	9.25
	2022E	11.50	↑	12.25
	2023E	9.00	→	9.00
FX Rate - USDBRL (end of period)	2021E	5.50	→	5.50
	2022E	5.70	→	5.70
	2023E	5.20	→	5.20
Current Account Balance (% of GDP)	2021E	0.0	↓	-1.3
	2022E	0.0	↓	-0.7
	2023E	-1.6	↓	-2.0
Primary Fiscal Balance (% of GDP)	2021E	-0.3	↑	-0.1
	2022E	-1.7	→	-1.7
	2023E	-1.3	→	-1.3
Gross Public Debt (% of GDP)	2021E	81.2	↑	81.8
	2022E	87.5	↓	87.1
	2023E	94.6	↓	94.1

Sources: IBGE, The National Treasury Secretariat, BCB and Santander.

*By the time of writing, the 3Q21 GDP data had not come out, with the date of release scheduled for the same day as the publishing of this piece. The 4.7% estimate to 2021 GDP considered a -4.1% drop in 2020.; however, our current estimate stands at +4.6%, taking into account the actual 3.9% drop calculated to 2020.

Thank you.

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